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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Tariffs Implementing Access Charge Reform	)	CC Docket No. 97-250
	)	

DIRECT CASE OF U S WEST, INC.

Richard A. Karre
Jeffry A. Brueggeman
Suite 700
1020 19th Street, N.W.
Washington, DC 20036
(303) 793-6352

Attorneys for

U S WEST, INC.

Of Counsel,
Dan L. Poole

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SUMMARY

U S WEST, Inc. ('U S WEST") submits its Direct Case in response to the Federal Communications Commission's ("Commission") Order Designating Issues for Investigation and Order on Reconsideration ("Designation Order") rel. on Jan. 28, 1998. The allocations and methods used by U S WEST in its Access Reform Tariff Filing are reasonable and should be upheld by the Commission.

First, U S WEST properly used a "premises" approach to define primary and non-primary lines. U S WEST considers the first (in time) line put into service at a residence to be the primary line.

Second, unlike other LEC, U S WEST has no imbalance in its PICC and SLC line counts. U S WEST charges neither a PICC nor a SLC on official lines; it charges both a PICC and a SLC on concession lines.

Third, the Commission should reject AT&T's attempt to make post hoc adjustments to U S WEST's BFP calculations. In effect, AT&T is asking the Commission to engage in an unlawful retroactive revision of its price cap rules. The Commission has no authority to reconstruct history by determining what U S WEST's CCL would be if it had forecasted the BFPs perfectly every year. Inany case, the Commission effectively prescribed U S WEST's CCL rates by prescribing the BFP it must use to calculate those rates; it cannot now find unreasonable a rate it has itself prescribed.

Fourth, U S WEST acted properly in calculating the revenue requirement associated with line and dedicated trunk ports, and reassigning those costs as directed by the Commission. Using revenues to determine exogenous adjustments

is inappropriate because revenues often bear little, if any, relation to costs in a price cap regime. Even if the Commission were to require exogenous cost adjustments to be made on the basis of revenues, rather than revenue requirements, it should apply that principle only on a prospective basis. Requiring U S WEST to now change these cost adjustments from the Access Reform Tariff Filing could result in U S WEST having to make refunds for overstated rate elements, with no concomitant opportunity to obtain amounts it underbilled to other rate elements.

Fifth, U S WEST provided detailed information in the Access Reform Tariff Filing to demonstrate that it removed the proper amount of SS7 costs from the TIC. Workpapers 12 and 7 of the Access Reform Tariff Filing contain U S WEST's calculation of its STP investment for all tandem locations, the amount of STP investment allocated to the interstate jurisdiction, and the interstate revenue requirement for SS7 links between the end office and STP.

Sixth, U S WEST is correcting its calculations of the amount of COE maintenance and marketing expenses removed from the TIC. U S WEST had determined that, rather than directly assigning the COE Maintenance Expense to the TIC, it should have been spread to the components within the trunking basket. With respect to the Marketing Expense, U S WEST overlooked the fact that a portion of the allocation was actually associated with special access services sold to carrier customers. U S WEST is working with the Commission's staff to file a tariff correction which reflects the proper allocation of these expenses.

Seventh, U S WEST properly calculated its TST rates using actual MOU per trunk, rather than 9,000 MOU per trunk. U S WEST's TST usage (11,353 MOU) exceeds 9,000 MOU, which resulted in reduced TST rates and an increase in the TIC. Unless the Commission changes its rules, it must allow LECs to increase their TIC if the use of actual MOU produces that result. Even if the Commission were to prohibit LECs from increasing their TICS, it must find some other means for the LECs to recover the amounts they have thereby lost.

As a matter of history, the Commission erred in rejecting BellSouth's contention that the re-initialization of TST rates should include the cost of providing multiplexers. Since 1993, when the Commission created the TST rate structure, price cap LECs have included the cost of one DS3-DS1 multiplexer in developing TST rates. Thus, while U S WEST has removed the cost of a multiplexer from the TIC, the cost of the original multiplexer remains in its TST rates.

Eighth, U S WEST's methodology for allocating USF contributions accurately reflects the distribution of interstate end-user revenues across baskets. U S WEST did not rely on its initial Form 457, which the Commission used in its calculation of USF factors, because it was merely a preliminary view that will be trued-up and revised in the upcoming submission of annual data.

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DIRECT CASE OF U S WEST, INC.

U S WEST, Inc. ("U S WEST") hereby submits its direct case in response to the Federal Communications Commission's ("Commission") Order Designating Issues for Investigation and Order on Reconsideration ("Designation Order") released on January 28, 1998.[1]

I. NON-PRIMARY RESIDENTIAL LINES

The Designation Order requires each local exchange carrier ("LEC") to explain and defend the definition of non-primary lines it used in determining the revenues it would receive from the higher end-user common line ("EUCL") and primary interexchange carrier charges ("PICC") imposed on such lines.[2]

The Commission has pending a rulemaking proceeding to consider the appropriate definition of a "primary line."[3] In that proceeding, U S WEST has advocated a "premises" approach, under which the LEC would consider the first (in

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[1] In the Matter of Tariffs Implementing Access Charge Reform, CC Docket No. 97-250, Order Designating Issues for Investigation and Order on Reconsideration, DA 98-151, rel. Jan. 28, 1998 ("Designation Order").

[2] Designation Order ¶ 16.

[3] In the Matter of Defining Primary Lines, Notice of Proposed Rulemaking, 12 FCC Rcd. 13647 (1997).

time) line put into service at a residence to be the primary line. All lines subsequently put into service at that residence thus become secondary lines subject to the higher charges for such lines; this rule applies regardless of the billing name or the service. For this purpose, U S WEST would define a "residence" as a self-contained housing unit with separate cooking and sleeping facilities.[4]

U S WEST used this definition in establishing its count of non-primary lines in its Access Reform Tariff Filing. In comparison to a "billing-name" definition, U S WEST believes its definition will result in a greater number of non-primary lines; its reported percentage of such lines ranks second only to Ameritech's. By removing billing name from its definition, U S WEST eliminates customers' opportunities to subscribe to multiple lines in different names, which could lead to a residence having multiple "primary" lines.

For several years, U S WEST has tracked "additional" lines based on the above definition of a primary line. U S WEST applies a unique USOC (999ADL) for such lines at the time of installation. Therefore, to determine its count of non-primary residence lines for this proceeding, U S WEST simply counted those lines. The resulting counts do not conflict with figures previously reported by U S WEST.[5]

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[4] Comments of U S WEST, Inc., CC Docket No. 97-181, filed Sep. 25, 1997 at 3.

[5] For example U S WEST's 1996 Investor Handbook showed 1,044,000 "additional" lines, 10.8% of its total residential lines. U S WEST Communications Group Investor Handbook (1996), at 17. In a subsequent ex parte presentation, U S WEST indicated it had 1,043,625 additional lines. U S WEST Ex Parte Presentation on U S WEST Communications' 1997 Annual Access Filing dated July 8, 1997.

U S WEST also identifies BRI ISDN lines by means of several unique USOCs. It used a count of those USOCs to determine the number of such lines for purposes of this proceeding.

* * * * *

The Designation Order requires each price cap LEC to provide the number of its lines in several categories: primary residence lines, non-primary residence lines, single-line business lines and BRI ISDN lines. Workpaper A provides that information, including the information required by Appendix B of the Designation Order.

II. PICC AND SUBSCRIBER LINE CHARGE ("SLC") DEMAND AMOUNTS

The Designation Order states that all LECs, except Ameritech, filed higher PICC line counts than their SLC line counts.[6] The Desgination Order accepts the LECs' explanation that this phenomenon results from the LECs not charging a SLC on official or concession lines.

Contrary to the statement in the Designation Order, however, U S WEST reported equal PICC and SLC line counts.[7] Unlike other LECs, U S WEST charges neither a SLC nor a PICC on official lines; it charges both a SLC and a PICC on concession lines. Hence, U S WEST has no imbalance in its line counts. U S WEST will continue this treatment only so long as the provider of its interstate long distance service does not impose a pass-through charge for the PICC. If

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[6] Designation Order ¶ 22.

[7] See Transmittal No. 890, filed Jan. 20, 1998, effective Jan. 24, 1998, TRP Chart CAP-1, PAGE 1, Lines 100, 110, 120, 130, 135, 140, 150.

U S WEST's provider should impose such a charge, U S WEST will reconsider its treatment of the PICC for official lines.

The Designation Order states that U S WEST does not impose a PICC on inward-only lines.[8] U S WEST's tariff provides for a PICC on all inward-only lines ordered out of its general exchange tariffs (e.g., 911 lines, intercom lines, DID services), and U S WEST's SLC and PICC line counts included all such lines.[9] In two states (Oregon and Washington), U S WEST offers a DID service out of its interstate access tariff.[10] This DID service is switched access, not an end-user line provided under local exchange tariffs. It therefore does not fall into the category of lines for which SLCs and PICCs apply.

III. COMMON LINE ADJUSTMENTS FOR "UNDERSTATED" BASE FACTOR PORTION ("BFP")

In the Annual Filing Order,[11] the Commission determined that several LECs, including U S WEST, had consistently underestimated their BFP per line, so that they overstated their carrier common line ("CCL") charges and understated EUCL charges.[12] The Commission rejected AT&T Corp.'s ("AT&T") attempt to have it recalculate CCL charges to wring out the supposed residual effects of past CCL

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[8] Designation Order ¶ 24.

[9] Due to an internal misunderstanding, U S WEST has not yet billed PICCs to these lines; U S WEST will rectify this situation. That lapse has no impact on rates because U S WEST's PICC line count included these lines.

[10] See U S WEST Communications Tariff FCC No. 5, Section 6.2.7.

[11] In the Matter of 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Memorandum Opinion and Order, FCC 97-403, rel. Dec. 1, 1997 ("Annual Filing Order" or "Order").

[12] Id. ¶ 77.

overcharges.[13] Undaunted, AT&T has returned with a new methodology to calculate this supposed effect. AT&T claims U S WEST's CCL rates are excessive by some $18 million annually. The Designation Order tentatively concludes that the affected LECs' CCL charges are overstated;[14] it seeks comment on AT&T's methodology and asks whether the amounts should be adjusted to reflect historical instances of pricing below cap and amounts returned under the former sharing mechanism within the price cap regime.

Curiously, the Designation Order fails to ask the most important question of all: whether the Commission has authority, under its own rules, to make the sort of post hoc adjustment contemplated here. As we will explain below, it does not. In any case, the Commission effectively prescribed U S WEST's CCL rates by prescribing the BFP it must use to calculate those rates; it cannot now find unreasonable a rate it has itself prescribed.

A. The Adjustment Of CCL Charges, As Contemplated By The Designation Order, Would Conflict With The Commission's Rules

The Commission's price cap rules require price cap LECs to "project" their BFP; that forecast forms the basis for EUCL charges, which recover a substantial portion of the total Common Line basket revenues. The balance of the Common Line revenues come from other charges, including CCL and PICC charges. Though the BFP fundamentally does no more than allocate the Common Line basket, an overallocation to the CCL may inflate overall Common Line revenues if interstate

[13] Id. ¶ 98.

[14] Designation Order ¶ 31.

usage per line grows faster than lines themselves do. According to the theory, the overstatement of the Common Line basket carries over to the following year because the prior year's Common Line revenues are the starting point for determining the current year's rates.

To correct this supposed problem, AT&T would have the Commission reconstruct history and determine what the affected LECs' CCL would be if they had forecasted the BFPs perfectly; that is, AT&T would have the Commission true-up the CCL charge to what it would have been had the LEC set rates using the actual BFP. In effect, AT&T is asking the Commission to engage in an unlawful retroactive revision of its price cap rules. Any change in the methodology used to determine the BFP can take effect, if at all, solely on a going-forward basis.

Nothing in the Commission's existing rules calls for this sort of true-up process or prescribe how to calculate it. Thus, if the Commission would require that sort of adjustment here, it must first find the LECs' CCL rates unreasonable and then determine that a reasonable rate requires this adjustment. But in order to reach that conclusion, the Commission must find that only perfect BFP forecasts can produce reasonable rates. Yet, the Commission's rules do not allow for this sort of perfection because they require the LECs to use forecasts of the BFPs (as opposed to historical data) which will never be 100% accurate. Thus the adjustment proposed by AT&T would impose a degree of precision the Commission's rules do not contemplate or permit.

Indeed, the notion of retroactively correcting the LECs' rates to reflect actual BFP results conflicts with the fundamental notion of price caps, which (supposedly) provides the LECs increased pricing flexibility. The extreme precision embodied in the adjustment proposed by AT&T might make sense under rate of return regulation, but it has no place under price caps.[15]

Moreover, the adjustment is inconsistent with the Commission's actions in the Annual Filing Order. There, the Commission required some LECs to recalculate their EUCL and CCL rates using BFPs prescribed by the Commission in that Order.[16] The LECs selected for this treatment had, in the Commission's view, done a worse job of forecasting than the others. Perhaps so, but no LEC did a perfect job of forecasting, and the Commission found the rates of some LECs to be reasonable, despite their imperfect forecasts. Thus the Commission has determined that reasonable CCL rates do not require perfect BFP forecasts. If the Commission would institute the sort of adjustment contemplated here, it must either determine the allowable margin for error in the LECs' BFP forecasts, or it must require a true-up to actual BFPs for all LECs, regardless of the accuracy of their forecasts. Either adjustment would require a change to the Commission's rules, which the Commission may enact only on a prospective basis.

B. The Commission Has Effectively Prescribed U S WEST's CCL Rates And May Not Now Find Those Rates Unreasonable

Section 204(a) of the Communications Act authorizes the Commission to suspend and investigate "new or revised" rates filed by a telecommunications carrier, to impose an accounting order, and to order a refund of any portion of those

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[15] This is particularly so when the Commission's rules require the LECs to use a forecasted number as an integral component of the ratemaking process.

rates it finds "not justified."[17] Section 205(a) of the Act empowers the Commission to prescribe rates "to be thereafter followed" by a carrier.[18] Rates prescribed by the Commission pursuant to Section 205(a) do not fall under its Section 204(a) powers: the Commission cannot determine that such a rate is "not justified."

By prescribing the per-line BFP U S WEST must use to set its EUCL rates, the Commission has effectively prescribed U S WEST's CCL rates. Those rates are the product of U S WEST's EUCL rates, which the Commission prescribed, and the operation of the formula prescribed by the Commission's rules.[19] The Commission thus has prescribed the formula U S WEST must use to calculate its CCL charges, and it has prescribed the critical variable in that formula. So long as U S WEST abides by these prescriptions in calculating its CCL rates, the Commission may not find those rates not justified under Section 204(a).

* * * * *

The Designation Order asks the affected LECs to recalculate their maximum Common Line revenues using AT&T's methodology.[20] Because AT&T used U S WEST as the example to demonstrate its methodology, U S WEST has not repeated AT&T's calculation.

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[16] Annual Filing Order ¶ 84.

[17] 47 U.S.C. § 204(a)(1).

[18] 47 U.S.C. § 205(a).

[19] 47 C.F.R. § 61.46(d)(1).

[20] Designation Order ¶ 35.

IV. EXOGENOUS COST ADJUSTMENTS: REVENUE VERSUS REVENUE REQUIREMENT

A. U S WEST Correctly Calculated The Reassignment Of Port Costs

In the Access Reform Order,[21] the Commission ordered the price cap LECs to move certain non-traffic sensitive costs from the Local Switching rate elements. Specifically, the Commission "reassign[ed] all line-side port costs from the Local Switching rate element to the Common Line rate elements."[22] Similarly, the Commission "conclude[d] that the costs of a dedicated trunk port . . . should be recovered on a flat-rated basis . . . . from the carrier purchasing the dedicated trunk terminated by that port."[23]

In implementing this requirement in their compliance filings, the LECs uniformly calculated the revenue requirement associated with line and dedicated trunk ports, and reassigned those costs as directed by the Commission. AT&T and MCI Telecommunications ("MCI") both complained that the LECs should have calculated the reassignment using not the revenue requirement, but the revenues associated with these ports, a higher number.

The Designation Order tentatively concludes that using revenues to determine the exogenous adjustments is preferable because that method would ensure the removal of all revenues from a basket if all services were "adjusted" out

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[21] In the Matter of Access Charge Reform, First Report and Order, 7 Comm. Reg. (P&F) 1209 (1997) ("Access Reform Order"), appeals pending sub nom. Southwestern Bell Telephone Company v. FCC, No. 97-2618 (8th Cir.).

[22] Id. at 1245-46 ¶ 125 (footnote omitted, emphasis added).

[23] Id. at 1246 ¶ 127 (emphasis added).

of that basket; using revenue requirements might leave some revenues in the basket in such a case.[24] But revenues are not costs, and in a price cap regime, they bear little, if any, relationship to costs.

When the Commission instigated its price cap regime, it initialized the LECs' rates at their pre-price cap levels adjusted to the prescribed 11.25% rate of return. Since then, the LECs' rates have changed, generally decreasing, and their costs have presumably moved in the same direction. But nothing weds the two. Prices generally decrease in a more or less arbitrary manner, reflecting the effects of the productivity factor and exogenous cost changes implemented along the way. The prices of individual rate elements may or may not follow the overall trend; the limited pricing flexibility allowed the LECs enables them to adjust prices within a basket.

Costs also have decreased, reflecting technological advances, shifting economies of scale and scope, and LEC investment decisions and productivity measures. Those decreases, however, will not line up with the price decreases. For example, a LEC's Local Switching rates might have decreased by 10% over the last three years, while the costs of providing Local Switching decreased by 20% in the same period. Conversely, a LEC's CCL rates might have decreased by 50% (or more) over the same period (because of the Commission's restructuring of access rates) while the costs of providing that service have remained relatively flat.

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[24] Designation Order ¶ 50.

Indeed, U S WEST's rate of return on Local Switching greatly exceeds 11.25%, while its rate of return on CCL is far below that level.

Moreover, the LECs have added entirely new rate elements and services -- representing totally new costs and revenues -- to the various baskets over the years. The LECs chose to price some of these elements and services close to cost; in other cases, the market (and price cap flexibility) enabled the LECs to capture a higher margin on these elements and services.[25] These factors contribute to the basket revenues in any year, and they have little or no relationship to cost or to the rate of return on individual elements.

Finally, LEC revenues are impacted by exogenous cost changes that raise or lower the revenue limits, many of which have no relationship to the actual cost of providing service. Such changes further distance a price cap LEC's revenues from its costs.

Thus, while the Commission may believe that revenues provide a better means of calculating the exogenous adjustments at issue here, it cannot reasonably say they measure "costs" in any fashion. If the Commission would have the LECs calculate these adjustments on the basis of revenues, it must reconsider the Access Reform Order, which plainly requires a "cost" adjustment.

The alternative proposal in the Designation Order -- calculating cost changes on the basis of achieved earnings ("revenue requirement") produces the same flawed

[25] By essentially prescribing the LECs' rates for Line Ports, the Commission would significantly erode the LECs' pricing flexibility contrary to the price cap rules.

result.[26] When the achieved rate of return is applied to the rate base, plus taxes and expenses, the result is the company's earned revenues. Again, if the Commission wishes to have the LECs calculate these adjustments on the basis of achieved earnings, it must revisit the Access Reform Order.

B. If The Commission Requires Exogenous Cost Adjustments On The Basis Of Revenues, Rather Than Revenue Requirements, It Should Apply That Principle Prospectively Only

Because the issue here involves a pure matter of where the LECs will recover an unchallenged revenue requirement, both U S WEST and Bell Atlantic requested the Commission's guidance in time for the compliance tariff filing that took effect on January 1, 1998.[27] Neither the Commission nor the Common Carrier Bureau responded directly to that request. A month later, however, the Designation Order tentatively concluded that "revenues . . . are the best measure of the costs recovered through a particular price cap rate element."[28] Even if the Commission concludes that revenue requirements provide the best measure of port costs, the Designation Order tentatively concludes that actual basket earnings should be utilized to calculate that revenue requirement.[29]

Either method would require the LECs to increase certain rates and lower others. More importantly, the LECs would face the possibility of having to make

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[26] Designation Order ¶ 49.

[27] In the Matter of Support Material for Carriers to File to Implement Access Charge Reform Effective January 1, 1998, Reply Comments of U S WEST Communications, Inc., filed Dec. 17, 1997 at ii-iii; 5 n.7; and see Reply Comments of Bell Atlantic, filed therein, Dec. 18, 1997 at 6-7.

[28] Designation Order ¶ 48.

refunds for overstated rate elements, with no concomitant opportunity to obtain the amounts they underbilled to other rate elements.[30]

Thus, while basing these adjustments on revenues is fundamentally flawed, in U S WEST's view, if the Commission determines that to be the "right" answer, given the history noted above, it should apply that answer only on a prospective basis.[31]

* * * * *

The Designation Order directed each LEC to provide a comprehensive list of all the exogenous adjustments it has made since the inception of price caps that had the purpose of reallocating costs among baskets, categories, rate elements, or between price cap and non-price cap services, including the method used to calculate the adjustment in each instance.[32] Workpaper B provides that information. The Designation Order also required LEC's to recalculate their exogenous adjustments based on revenues rather than revenue requirement. Workpaper C lists the comparison.

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[29] Id. ¶ 49.

[30] To be sure, the Suspension Order put customers on notice that the Commission might allow the LECs to recover the amounts they have undercharged in future rates. In the Matter of Tariffs Implementing Access Charge Reform, CC Docket No. 97-250, Memorandum Opinion and Order, rel. Jan. 23, 1998 ¶ 3. But the LECs have no guarantee that the Commission will adopt that course if it concurs with the methodology laid out in the Designation Order.

[31] Backbilling customers or prospectively increasing their rates to recoup amounts not recovered presents its own problems in terms of customer confusion and dissatisfaction.

[32] Designation Order ¶ 51.

V. U S WEST REMOVED THE PROPER AMOUNT OF SS7 COSTS FROM THE TRANSPORT INTERCONNECTION CHARGE ("TIC")

In the Designation Order, the Commission stated that it was unable to determine whether U S WEST used the correct SS7 cost figure in computing its residual tandem switching revenue requirement.[33] As a result, the Commission directed U S WEST to provide the following: (1) cost studies justifying the amount that was removed from the TIC as SS7 costs; (2) information substantiating the amount of SS7 costs originally allocated to the TIC; (3) information regarding any additional SS7 costs incorporated into the TIC during the period January 1, 1994 to December 31, 1997; and (4) information regarding any true-up of SS7 costs due to exogenous cost adjustments in the trunking base.[34]

In fact, U S WEST did provide all of the above-mentioned information in its Access Reform Tariff Filing. Specifically, U S WEST explained that it removed two categories of SS7 costs -- the costs of signal transfer points ('STP") included in the Tandem Switching category for jurisdictional separations purposes and the cost of links between the end office and STP used solely for SS7 signaling -- from the TIC and allocated them to the Local Switching category of the Traffic Sensitive Basket.[35] Workpapers 12 and 7 of the Access Reform Tariff Filing contain U S WEST's calculation of its STP investment for all tandem locations, the amount of STP investment allocated to the interstate jurisdiction, and the interstate revenue

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[33] Designation Order ¶ 61.

[34] Id.

[35] U S WEST's Access Reform Tariff Filing, filed Dec. 17, 1997, D&J § 3.1.2.8 at 23-26.

requirement for SS7 links between the end office and STP.[36]

Workpaper 12 was prepared to determine U S WEST's total tandem SS7-STP costs, including costs associated with STP capacity leased to other LECs, as well as STP costs associated with U S WEST's Interstate (CCSAC) tariff. This total -- $6,741,746 -- was used to calculate the Tandem Switching Revenue in the current TIC on line 7 of Workpaper 13. The higher Workpaper 12 figure was used in the calculation because the original amount that flowed into the TIC at the time of the local transport restructuring included the entire tandem switching revenue requirement, including contracted and CCSAC STP. Consequently, the entire SS7 revenue requirement needed to be removed from the total amount so that only the tandem switching revenue requirement remained. One-third of that amount is the appropriate amount to move from the TIC to tandem switching rates.

The study which determined the SS7-STP cost (complete with references to other workpapers and study documentation) is found on pages 16 and 17 of Workpaper 12. First, U S WEST inventoried the number of STPs installed at each tandem in 1996. Then STP tandem investment was calculated by multiplying the number of STP Ports at each tandem location by the STP Cost per port determined from engineering records. These investments were converted to revenue requirements using ARMIS loading factors. Finally, the result was separated into the interstate jurisdiction based on the tandem allocation factor developed from

[36] For the same reasons discussed in Section IV above, U S WEST believes that the use of revenue requirement, as opposed to revenue, is appropriate for determining the interstate allocation of SS7 links.

Line 1203 of the ARMIS 43-04 for 1996. The total adjustment of $6,741,746 is found on line 5 of page 16.

The amount of SS7-STP costs calculated in Workpaper 7 -- $5,382,033 -- is lower than the Workpaper 12 figure because it excludes the costs related to STPs that were already recovered in U S WEST's Interstate CCSAC tariff or contracts with other LECs. This amount was added to $171,623 in link costs to produce the exogenous adjustment of $5,553,656 in the SS7 column of Workpaper SUPP-EXG2. U S WEST correctly used the lower amount calculated in Workpaper 7 so as not to double recover the costs associated with these tariffed and contracted services. Of the $5,553,656 reallocated to the Local Switching category, U S WEST removed 20% from tandem switching and 80% from the TIC. That is the same distribution of tandem costs required in the 1993 local transport restructure.

The study which determined the SS7-STP cost is found on page 2 of Workpaper 7. First, U S WEST inventoried the number of STPs installed at each tandem in 1996. Then STP tandem investment was calculated by multiplying the number of STP Ports at each tandem location, excluding the contracted ports, by the STP Cost per port determined by engineering records. These investments were converted to revenue requirements using ARMIS loading factors. Finally, the result was separated into the interstate jurisdiction based on the tandem allocation factor developed from Line 1203 of the ARMIS 43-04 for 1996. The total adjustment, complete with references, is found on line 5 of page 1.

With respect to additional SS7-STP costs that were included in the original TIC, U S WEST has calculated that $4,091,029 in tandem STP costs were originally allocated to the TIC in 1994. This figure is based on cost per unit multiplied by the estimated units in place for the year 1992, the revenue requirement underlying the January 1994 Transport Restructuring Tariff Filing. The cost per unit was calculated using the same method as in the Access Reform Tariff Filing, including the same loading and separations factors. U S WEST has added $1,301,868 in SS7-STP costs since 1994. Workpaper D details these calculations.

Finally, U S WEST did not make any true-ups to SS7 costs due to exogenous cost adjustments in the trunking basket.

VI. U S WEST IS CORRECTING ITS CALCULATIONS OF THE AMOUNT OF CENTRAL OFFICE EQUIPMENT ("COE") MAINTENANCE AND MARKETING EXPENSES REMOVED FROM THE TIC

The Commission has directed price cap LECs to provide detailed information substantiating the amount of COE maintenance and marketing costs that were removed from the trunking basket, and the portion of that amount that was removed from the TIC.[37] In addition, the Commission tentatively concluded that the price cap LECs must allocate these exogenous cost changes to the TIC as it existed on June 30, 1997.[38]

A. COE Maintenance Expenses

In the Access Reform Tariff Filing, U S WEST directly assigned the trunking component of the COE Maintenance Expense to the TIC. U S WEST subsequently determined that, rather than directly assigning this expense to the TIC, it should have been spread to the components within the trunking basket. The effect of this

[37] Designation Order ¶ 67.

reassignment is shown in Workpaper E. Instead of removing $11.7 million from the TIC, the revised TIC amount is $6.1 million, with the remainder spread to the other trunking elements. This reallocation was based on the spread of June 30, 1997 revenues across all products in the trunking basket, including special access.
U S WEST is working with the Commission's staff to file a tariff correction which reflects the proper allocation of this expense across all trunking basket categories, including the TIC.[39]

U S WEST quantified the maintenance expense using its Part 69 model, modified for the Commission's maintenance rule change. The months of July and August 1996 were revised for the rule change and compared to the actual results for these months. U S WEST annualized the difference in the maintenance expense and used this amount as the maintenance adjustments to the TIC in its Access Reform Tariff Filing. Rather than resubmitting the voluminous workpapers prepared for that filing,[40] U S WEST's Workpaper E details a simpler methodology used to determine the maintenance expense reallocation based on the 1996 ARMIS reports. That is the same methodology used by U S WEST to model the months of July and August 1996, the basis for its original reallocation.

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[38] Id. ¶ 68.

[39] The Commission also tentatively concluded that the AT&T workpaper format for the TIC recalculation effectively illustrates the transport costs that are to be removed from the TIC and the facilities-based portion of the TIC. Designation Order ¶ 90. U S WEST agrees. Thus, its tariff correction will be consistent with the AT&T workpaper format.

[40] See Workpaper 8 entitled "COE Maintenance" of the Access Reform Tariff Filing.

U S WEST allocated Account 6210 Central Office Maintenance Expense to model the Part 69 cost element change based on the distribution of Part 69 Investment in Account 2210, Central Office Switching, in each cost element. Likewise, Account 6220 Operator Services Maintenance Expense was allocated across Part 69 cost elements based on the distribution of Account 2220 Operator Investment in each element. Account 6230 Central Office Circuit Expense was allocated across Part 69 cost elements based on the distribution of 2230 Circuit Equipment Investment in each element. The result using annual ARMIS data is similar to amounts determined using U S WEST's Part 69 model based on annualized data from July and August 1996. Line port maintenance expense was removed from the switching element after the above reassignments were completed and added to the common line element for the new line port category. Minor deviations from the original filing are attributed to the method used, that is two months multiplied by six versus the actual expenses from ARMIS.

B. Marketing Expenses

U S WEST used its actual Interstate Marketing Expense, as reported in ARMIS 43-04, to determine the amount of expenses moved to the new Marketing Basket. The total amount of interstate marketing expenses for 1996 was $112.4 million, less $440,000 associated with pay-telephone set deregulation.[41]

The Commission's Access Reform Order specifies that marketing amounts

[41] See ARMIS 43-01, row 1140, column h.